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# COUNTRY ECONOMIC REVIEW

*COOK ISLANDS*

## **CURRENCY EQUIVALENTS**

(as of 31 August 2000)

Currency Unit	–	New Zealand dollar (NZ\$)
NZ\$1.00	=	US\$0.43
US\$1.00	=	NZ\$2.32

## **ABBREVIATIONS**

EU	–	European Union
GDP	–	gross domestic product

## **NOTE**

The Government's fiscal year (FY) ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends.

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## EXECUTIVE SUMMARY

The Cook Islands' real gross domestic product (GDP) grew by 4.5 percent per annum during 1982-1994, while the real GDP per capita growth rate was 3.6 percent. During 1995-1998, as the population declined from 19,500 to 17,400 with the migration of Cook Islanders to New Zealand, real GDP declined at an average annual rate of 2.8 percent, and real GDP per capita stagnated. The recession largely reflected public service downsizing under the Economic Reform Program. In 1999, real GDP is estimated to grow by 2.7 percent as a result of a resurgence in tourism, growth in black pearl production, construction projects, and a recovery in commercial agricultural production.

Of the economically active population in 1996 (5,994 persons), 87 percent were formally employed and 13 percent were searching for work. The services sector provided 78 percent of the jobs, with the public sector accounting for almost half of these. While the primary sector accounted for 11 percent of formal employment, two thirds of households engaged in subsistence agriculture and fishing. The secondary sector<sup>1</sup> also accounted for 11 percent of formal employment, and since 1996, there has been a marked shift to private sector employment in tourism-related activities.

Initiated in March 1996 in response to a fiscal crisis, the Economic Restructuring Program, has resulted in fiscal governance improvements and strengthened Government finances. ADB-brokered debt restructuring in September 1998 underpinned the financial strengthening. In FY1999, an operating account budget surplus was achieved. The FY2000 budget projects a balanced operating account as a result of the Government's increased spending on infrastructure to support the tourism industry, and increased policy spending on education, health, welfare, cultural development, and environmental protection.

Because the New Zealand dollar is used as currency, monetary policy cannot be used as a tool for macroeconomic management. Growth in money supply has accelerated in line with the economic recovery, largely reflecting an increased extension of credit to the private sector by the two commercial banks. Interest rates have fallen. The inflation rate, which declined until 1996, rose slightly from negative 0.42 percent in 1997 to 1.35 percent in 1999 and reached 1.54 percent in March 2000.

The merchandise trade balance deteriorated slightly in the 1990s, as the decline in a narrow range of exports outpaced the decline in imports. The trade deficit for the first quarter of 2000 has deteriorated due to a sharp increase of import growth outpacing export growth. However, tourism receipts ensured a current account surplus throughout the period 1995-1999. In 1999, the current account surplus increased 59.2 percent as growth in tourism receipts outweighed the increased trade deficit. International competitiveness of the Cook Islands improved during 1998 and 1999, because of the depreciation of the New Zealand dollar against the major currencies.

The economic outlook is the brightest it has been in five years. Growth may exceed official expectations, especially if some major hotel redevelopments occur and there are no unforeseen external shocks. Real growth rates in excess of 3 percent per annum are expected.

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<sup>1</sup> The secondary sector refers to mining and manufacturing, electricity and water supply, and construction.

The principal policy issue remains that of completing and consolidating the gains of the Economic Restructuring Program. Areas requiring Government attention include public sector reform, tariff reform, and laws and regulations affecting the operation of markets for labor and transport services. Improved environmental management is also needed if growth is to be sustainable. A process to devolve responsibilities to the outer islands needs to be carried out within the framework of sound macroeconomic and fiscal management.

## I. RECENT ECONOMIC DEVELOPMENTS

### A. Growth and Employment

#### 1. Aggregate Growth

1. During 1982-1994, the real gross domestic product (GDP) of the Cook Islands economy grew at an average annual rate of 4.5 percent. Since the resident population grew at 1 percent per annum, this translated into per capita GDP growth of 3.5 percent. Tourism and a public sector that relied heavily on aid and foreign borrowings were the engines of growth. The primary and secondary sectors recorded little expansion. Growth was concentrated in Rarotonga, the seat of the Government and home to 57 percent of the population. While GDP per capita (US\$5,300) and the human development index (0.985)<sup>1</sup> were the highest among the Pacific developing member countries at the time, GDP per capita for the 14 outer islands varied between 13 and 50 percent of the national average. Private remittance flows were a significant, though undocumented, source of income to Cook Island residents.

2. Contractions in tourism and the public sector during 1995-1998 pushed the economy to recession. According to official national accounts statistics, real GDP fell by 4.4 percent in 1995, 0.2 percent in 1996, 2.8 percent in 1997, and 2.3 percent in 1998—an average annual decline of 2.4 percent (Table 1). Visitor numbers fell 15 percent in 1995, following a reduction in international airline services, and adverse publicity over French nuclear testing and a dengue fever outbreak. Despite some subsequent recovery, numbers in 1998 remained 13 percent down from the 1994 peak level. At the same time, a financial crisis emerged, the result of years of unsustainable fiscal expansion involving a growing wage bill, an expanding welfare system, and surging capital expenditure largely funded by external borrowing. Rather than responding with expenditure cuts and/or tax increases, the Government of the day began accumulating arrears and borrowing funds from Government-owned entities. However, by early 1996 it became clear that fundamental policy changes were unavoidable. The Economic Restructuring Program was implemented to substantially reduce the size of the public service, improve fiscal governance, and facilitate private sector development. Between March 1996 and October 1998, the number of public servants declined by 57 percent.

3. The decline in GDP during 1995-1998 was not matched by an equivalent decline in per capita income. Following the public service retrenchments, many Cook Islanders exercised their option, as New Zealand citizens, to migrate. In the three years from 1996 to 1998, there was a net migration of 3,328 people—18 percent of the 1995 resident population. Real GDP per capita stagnated. By 1998, GDP per capita in current market prices was NZ\$8,159. 1996 data show that 48 percent of the employed population earned between NZ\$5,000 and NZ\$14,999 per annum, while 27 percent earned less than NZ\$5,000, and 24 percent earned NZ\$15,000 or more. In 1998, the human development index was 0.822, the highest among the PDMCs; and the human poverty index was 6.1,<sup>2</sup> indicating the second lowest incidence of poverty among the PDMCs (after Tonga).

4. From 1999 the economy started to recover. The population declined to 16,100 at the end of 1999, but recorded 16,800 in March 2000. The key tourism sector is growing (Statistical

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<sup>1</sup> United Nations Development Programme (UNDP) and Cook Islands Government. 1998. *Choices for Change: The Cook Islands Sustainable Human Development Report*. Suva, Fiji Islands: UNDP

<sup>2</sup> United Nations Development Programme (UNDP). 1999. *Pacific Human Development Report 1999: Creating Opportunities*. Suva, Fiji Islands: UNDP.

Appendix, Table A.1). Visitor arrivals in 1999 were 14.3 percent higher than in 1998, compared with the South Pacific average of 3.5 percent increase in 1999. The occupancy rate increased to 63.6 percent in 1999 from 58.4 percent in 1998. Total arrivals increased from 55,552 in 1998 to 62,970 in 1999 due to increased visitors from Australia, New Zealand, and Canada. The introduction of charter flights from Canada and new services by Air New Zealand underpinned the increase. Black pearl production continues to grow; and commercial agricultural production—stimulated by tourism growth—started a recovery from the 1997-1998 drought-affected level. Construction activity is also growing after the decline of recent years. Business surveys have revealed a rise in business confidence from late 1998; and credit to the private sector in FY99 was 13.5 percent up from the 1998 level. Real GDP was estimated to grow by 2.7 percent during 1999.

## **2. Sector Growth**

5. Table 2 shows sector growth outcomes from 1991 to 1999 and the associated structural change in the economy. Overall the primary sector increased its share to 23 percent of GDP from 21 percent in 1991. The secondary sector share of GDP declined because of contraction in the construction subsector, which outweighed the growth in the other subsectors. The tertiary sector increased its share of GDP slightly, but there were marked changes in the structure of the sector. Public administration declined at an average annual rate of 4.5 percent, whereas the tourism-related subsectors grew significantly.

### **a. Agriculture and Fishing**

6. According to the 1996 census, 66 percent of households engaged in subsistence agriculture, and 67 percent in subsistence fishing. A further 5 and 4 percent engaged in commercial agriculture and commercial fishing (including pearl farming). Subsistence production accounted for between 14 and 18 percent of total GDP during 1991-1999 (Table 3). In real terms, it has grown at around 2.5 percent per annum, suggesting that as the level of aggregate monetary activity has declined, people have redirected their work effort to traditional activities (although the statistics must be used with caution, especially as the last agriculture census was in 1988).

### **b. Industry**

7. The small manufacturing sector grew slightly faster than the aggregate economy during 1991-1999 (Table 2). The electricity and water sectors grew rapidly as a result of power and water upgrades on Rarotonga. The construction sector declined from a 1991 peak that reflected major expenditures on the (yet incomplete) Sheraton (Vaimaanga) hotel and a cultural center.

### **c. Services**

8. The historical dominance of the public sector in the economy is summarized in the statistic that 34 percent of GDP in 1991 was accounted for by public administration and public enterprises (Table 3). Likewise, the impact of the Economic Restructuring Program is simply demonstrated by the fact that this share dropped to 17 percent in 1999. Between March 1996 and October 1998, the number of public servants fell by 57 percent. The fact that the services sector as a whole still exhibited some growth testifies to the impact of tourism on wholesale and retail trade, restaurants and accommodation, transport and communication, and finance and business services, even though the impact was subdued in the latter part of 1991-1999.

**Table 1: Gross Domestic Product at 1990 Market Prices (NZ\$ million)**

Item	1991	1992	1993	1994	1995	1996	1997	1998 (p)	1999 (p)
<b>Primary Sector</b>									
Agriculture & Fishing	24.42	22.00	22.10	22.93	22.35	23.32	26.17	26.91	27.58
<b>Secondary Sector</b>									
Mining & Manufacturing	2.92	3.26	3.60	3.63	3.41	3.04	3.25	3.17	3.36
Electricity & Water	2.02	2.26	3.18	3.57	3.22	2.92	3.03	2.88	2.96
Construction	3.86	6.10	3.31	3.44	2.31	2.53	2.75	2.42	2.54
<b>Tertiary Sector</b>									
Wholesale & Retail Trade	20.28	22.27	23.52	24.52	22.41	22.84	23.69	22.53	23.17
Restaurants & Accommodation	7.66	9.45	10.15	11.64	10.68	10.98	11.75	11.45	12.14
Transport & Telecommunications	12.84	12.86	14.82	15.04	14.49	14.39	14.92	14.19	14.59
Finance & Business Services	6.94	8.64	10.57	10.83	11.35	11.07	11.49	10.92	11.23
Community & Personal Services	1.30	1.33	1.45	1.50	1.23	1.72	1.63	1.55	1.58
Public Administration	29.81	30.93	32.07	32.72	32.43	30.86	20.55	20.55	20.55
Ownership of Dwellings	5.39	5.53	5.67	5.81	5.94	6.08	7.20	6.84	6.98
Less Imputed Bank Charges	2.67	3.00	4.08	4.31	4.28	4.40	4.56	4.34	4.46
Total GDP at 1990 Market Prices	114.75	121.61	126.35	131.30	125.55	125.35	121.86	119.07	122.23
Annual percent change	7.1	6.0	3.9	3.9	(4.4)	(0.2)	(2.8)	(2.3)	2.7
Memo items:									
Total GDP at Current Market Prices	120.78	134.07	149.00	161.21	155.06	149.07	144.24	141.96	148.21
Population	18,200	19,000	19,700	19,500	19,400	20,000	18,300	17,400	16,100
GDP per capita (NZ\$, current market prices)	6,636	7,056	7,563	8,267	7,993	7,453	7,882	8,159	9,205

GDP = gross domestic product; p = provisional.

Source: Cook Islands Statistics Office. 2000. *Cook Islands Annual Statistical Bulletin*, June.



**Table 2: Composition of Gross Domestic Product and Sector Growth, 1991-1999**

Sector	1991 Share of GDP ( percent)	1999 Share of GDP ( percent)	Average Growth Rate (1991-1999) ( percent)
Primary	21.3	22.6	0.3
Secondary – of which	7.7	7.2	0.0
Manufacturing	2.5	2.7	1.8
Electricity & Water	1.8	2.4	4.9
Construction	3.4	2.1	(5.1)
Tertiary – of which	71.1	72.3	0.6
Wholesale & Retail Trade	17.7	19.0	1.7
Restaurants & Accommodation	6.7	9.9	5.9
Transport & Communications	11.2	11.9	1.6
Finance & Business Services	6.0	9.2	6.2
Public Administration	26.0	16.8	(4.5)
Other (includes deduction for imputed bank charges)	3.5	3.4	0.2
Total	100.0	100.0	1.0

Source: Cook Islands Office. 2000. *Cook Islands Annual Statistical Bulletin*, June.

### **3. Employment**

9. 1996 census data show the labor force in the 15-59 age bracket totaling 5,994, this indicates a relatively high dependency ratio of 79 percent. Thirteen percent of the labor force was reported as unemployed and seeking work. Of those formally employed, 11 percent were in the agriculture and fishing sector; 11 percent in the secondary sector; and 78 percent in the services sector, where the public service alone accounted for 38 percent of employment (Table 4). In terms of occupational classification, the employed were spread fairly evenly (Table 5). The public service downsizing since 1996 has altered the level and structure of employment; and although data are not available to document this in detail, it is evident that there has been a marked shift to private sector employment, particularly in tourism-related service jobs.

**Table 3: Gross Domestic Product by Sector, 1991-1999**  
(current market prices, NZ\$ million)

<b>Year</b>	<b>Total</b>	<b>Private Enter- prise</b>	<b>Subsis- tence</b>	<b>Public Admin.</b>	<b>Public Enter- prise</b>	<b>Owner- ship of Dwell- ings</b>	<b>Imputed Bank Charges</b>
1991	120.78	58.74	17.85	31.49	9.79	5.74	2.83
1992	134.07	63.79	19.21	33.82	14.06	6.50	3.31
1993	149.00	69.21	21.33	37.23	18.82	7.21	4.79
1994	161.21	74.54	23.09	39.80	21.24	7.80	5.27
1995	155.06	71.72	23.16	38.23	18.94	8.29	5.28
1996	149.07	72.08	24.84	31.19	18.05	8.34	5.42
1997	144.24	75.59	25.95	24.33	15.25	8.52	5.40
1998	139.73	81.50	25.30	23.95	7.63	8.75	5.17
1999	148.21	86.42	25.20	24.92	8.62	8.46	5.41

Source: Cook Islands Statistics Office. 2000. *Cook Islands Annual Statistical Bulletin, June*.

**Table 4: Formal Employment by Industry, 1996**

<b>Category</b>	<b>Number</b>
Total	5,230
Agriculture and Fishing	553
Manufacturing	305
Electricity and Water	120
Construction	158
Trade, Restaurants, and Accommodation	1,468
Transport and Communication	497
Finance, Property, and Business Service	274
Community, Social, and Personal Services	1,855
- of which public service	1,559

Source: Ministry of Finance and Economic Management. 1996. *Cook Islands Census of Population and Dwellings 1996, Main Report*. Rarotonga.

**Table 5: Formal Employment by Occupational Classification, 1996**

<b>Occupation</b>	<b>Number</b>
Total	5,230
Legislators, Senior Officials, and Managers	603
Professionals	736
Technicians and Associate Professionals	481
Clerks	639
Service Workers, Shop and Sales Workers	841
Skilled Agricultural and Fisheries Workers	401
Craft and Related Trade Workers	525
Plant and Machine Operators and Assemblers	185
Elementary Occupations	814
Other	5

Source: Ministry of Finance and Economic Management. 1996. *Cook Islands Census of Population and Dwellings 1996 Main Report*. Rarotonga.

## **B. Fiscal Developments**

10. Fiscal governance and the state of Government finances have improved under the Economic Restructuring Program. Legislation was passed establishing the principles of fiscal responsibility, accountability, and transparency to be followed by the Government and heads of departments. Performance orientation in public expenditure management was introduced through the introduction of output-based budgeting, although this has made heavy demands on domestic capacity and is yet to be consolidated. Public service downsizing has produced a substantial reduction in the wage bill from NZ\$38.6 million in FY1995 to NZ\$22.9 million in FY2000 in current prices (Statistical Appendix, Table A.2). All functional components of government expenditure have been reduced (Statistical Appendix, Table A.3). The debt-servicing burden has eased due to the ADB-brokered September 1998 restructuring of the external debt: the debt-GDP ratio dropped from 86 percent in FY1998 to 80 percent in FY2000 (Table 6). On the revenue side, new income tax and value-added tax acts became effective in July 1997; and the Inland Revenue and Customs departments were amalgamated and strengthened. A number of Government assets were sold.

11. Detailed documentation of the extent and nature of the fiscal strengthening is hampered by the lack of timely production of reliable, comprehensive Government accounts, presented in the standard Government finance statistics format used by the International Monetary Fund. Moreover, as a result of the move to accrual accounting in the FY1997 accounts, these and subsequent accounts are not directly comparable with accounts of prior years. However, operating balances have improved in FY1999 with a surplus of NZ\$2.7 million, and the balanced operating balance is expected to be maintained in FY2000 (Table 6). Development expenditure has hovered around NZ\$10 million in recent years, and been funded by external grants and concessional loans. Aid significance to the country continues to decline in line with the Government's economic reform policy to spend within its means and become self-sufficient. The ratio of aid to GDP is projected to decline from 7.6 percent in FY1998 to 4.2 percent in FY2001.

12. The operating surplus expects to pick up again to NZ\$600,000 in FY2001 and NZ\$0.9 million in FY2001, as the tax take grows with nominal GDP growth. It is regarded as compliant with legislation requiring that, with a high debt level, "the total operating expenses of the Crown...are less than its total operating revenue in the same financial year." The projected balances are based on revenue growth averaging around 5 percent per annum, over the period

in-line with steady economic growth, with expenses growing by 3.9 percent average over the period. Net fiscal debt is expected to fall to 77 percent in FY2001. However, to stem a relatively high level of debt, the Government pursues fiscal discipline and public enterprise reforms including selling-off of national property. This fiscal management strategy supports the Government's commitments under the ADB-brokered Manila debt-restructuring agreement.

**Table 6: Government Finances, FY1998-FY2000**  
(NZ\$ million)

Item	1997/98 Actual	1998/99 Actual	1999/00 Forecast
<b>Statement of Financial Performance</b>			
<b>Revenue</b>			
Taxation Revenue	34,100	37,800	40,600
Other Revenue	6,600	4,700	6,000
<b>Total Revenue</b>	<b>44,400</b>	<b>45,700</b>	<b>49,800</b>
Ratio to GDP ( percent)	31.3	32.0	32.6
<b>Tax ratio to GDP ( percent)</b>	24.0	26.5	26.1
<b>Total Expenses</b>			
Ratio to GDP ( percent)	32.9	30.1	32.6
<b>Contribution of Ministry Trading Revenue</b>			
<b>Net Contribution of Ministry Trading</b>	<b>4,039</b>	<b>3,200</b>	<b>3,100</b>
<b>Operating Balance</b>			
Ratio to GDP ( percent)	(1.6)	1.9	0.0
<b>Statement of Financial Position</b>			
<b>Crown Balance</b>			
Ratio to GDP ( percent)	13.8	15.6	15.1
<b>Statement of Borrowings</b>			
<b>Net Crown Debt.</b>	119,200	116,200	117,000
Net Crown Debt to GDP ( percent)	86.1	81.3	80.3
Net Debt Repayment	2,800	2,200	4,600
<b>Nominal GDP</b>			
	141,986	142,907	149,158
<b>Development Partner Support</b>			
Aid Assistance	10,900	13,900	11,700
Ratio to GDP ( percent)	7.6	6.9	5.8

Note: (\$'000 and figures have been rounded)

GDP = Gross Domestic Product

Source: Ministry of Finance and Economic Management. 2000. Cook Islands Government Budget Policy Statement, March. Rarotonga

### C. Monetary Developments and Prices

13. The New Zealand dollar has been used as currency in the Cook Islands since 1995, effectively eliminating monetary policy as an instrument of macroeconomic management. The financial sector consists of two commercial banks, the Government-owned Cook Islands Savings Bank and the Cook Islands Development Bank, as well as several banks and trust companies associated with offshore banking activities.

14. As Table 7 shows, growth in the money supply has accelerated in line with the recent economic activity recovery. The increase in private sector credit, up 15.2 percent in FY1998 from FY1997 is the main source of this acceleration. It continued to grow at 13.5 percent in FY1999. The Government has become a net creditor with the banking system, while the claims of public enterprises have fallen dramatically (Table 7). Net foreign assets grew by 48.3 percent during FY1999. Interest rates have fallen since FY1997. The inflation rate is fundamentally determined by the New Zealand inflation rate and movements of the New Zealand dollar against the currencies of other major exporters to the Cook Islands, namely Australia, Fiji Islands, and Japan. Table 8 shows that the inflation rate declined substantially in the late 1990s, in line with the domestic recession and low inflation rates among the trading partners. The inflation rate rose from negative 0.42 percent in 1997 to 1.35 percent in 1999, and reached 1.54 percent in March 2000, reflecting recent economic recovery.

**Table 7: Monetary Survey, FY1996-FY1999**  
(NZ\$'000)

<b>Item</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Net foreign assets</b>	(4,837)	16,273	17,760	26,346
<b>Net domestic credit</b>	54,591	46,919	50,412	56,824
Government (net)	3,755	(1,911)	(1,636)	(818)
Public enterprises	7,823	6,536	3,321	2,317
Private sector	43,013	42,294	48,727	55,325
<b>Broad money</b>	47,068	61,740	69,192	80,778
<b>- Narrow money</b>	9,521	20,972	19,687	21,583
Currency in circulation	182	137	137	137
Demand deposits	9,339	20,835	19,550	21,446
<b>- Term &amp; savings deposits</b>	37,547	40,768	49,505	59,195
Average interest rate on personal loans ( percent)	18.31	18.31	18.43	17.16
Average interest rate on business loans ( percent)	13.25	13.25	11.16	9.25
Average interest rate on 3 month term deposits ( percent)	8.58	6.42	6.00	3.42
Average interest rate on personal savings accounts ( percent)	3.00	2.63	3.75	1.38

Source: Cook Islands Statistics Office. 2000. *Cook Islands Annual Statistical Bulletin, June*.

**Table 8: Consumer Price Index  
(December 1998 =100)**

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	Mar 2000
Food	88.10	91.23	97.46	99.35	99.04	98.35	98.22	99.63	100.04	100.02
Housing	81.39	88.21	93.35	99.99	104.86	104.53	100.67	99.23	99.08	99.18
Household operation	89.40	90.79	97.85	99.62	100.29	100.32	97.06	98.33	106.42	101.99
Apparel	87.51	90.48	96.93	100.67	102.80	101.70	103.04	103.97	100.68	106.17
Transport	88.31	91.09	96.45	99.96	100.52	98.53	100.00	100.60	101.40	102.98
Tobacco & alcohol	88.64	91.20	93.65	94.46	97.65	99.70	101.37	100.60	98.66	99.89
Miscellaneous	81.82	85.93	94.65	98.68	100.22	99.23	99.69	99.60	101.18	102.55
Overall index	87.52	90.01	96.58	99.15	100.02	99.43	99.01	99.75	101.10	101.63
Percentage change										
Overall index	5.84	2.84	7.30	2.66	0.88	-0.59	-0.42	0.75	1.35	1.54

Source: Cook Islands Statistics Office. 2000. *Cook Islands Annual Statistical Bulletin*, June.

#### D. External Trade and Balance of Payments

15. Total merchandise trade in 1999 was equivalent to 48 percent of GDP, and consisted of NZ\$6.7 million in exports of a narrow range of primary products (predominantly black pearls) and NZ\$77.2 million in imports (principally food and live animals, machinery, and transport equipment). In 1990 prices, the 1999 level of exports was 83 percent of the 1990 level, whereas imports were 89 percent of the 1990 level. Thus there has been a deterioration in the trade balance during the decade. However, the simultaneous rise in tourist arrivals has been a major source of foreign exchange; and the current account has been in surplus in each year for which there is data (Table 9). In 1999, the current account surplus increased 59.2 percent as growth in tourism receipts outweighed the increased trade deficit. Visitor arrivals and the occupancy rate increased in 1998 (para. 4). Capital inflows are not recorded. Government net debt in FY2000, as shown in Table 6, fell from 84.3 percent of GDP in FY99 to 77.9 percent. The extent of private sector external debt is unknown.

16. Movements in the nominal exchange rate follow those of the New Zealand dollar, which depreciated significantly since 1998 against the US dollar, the Australian dollar, the British pound, the German mark, and the Japanese yen. The low inflation rate ensured that this depreciation stuck in real terms, and that the Cook Islands became a cheaper destination for tourists from the main source countries (Statistical Appendix, Table A.1). New Zealand dollar returns to pearl exporters also increased.

**Table 9: Balance of Payments  
(NZ\$'000)**

Item	1996	1997	1998	1999(p)
Exports, f.o.b.	4,581	4,270	6,011	6,739
- of which Pearls	1,473	3,036	5,033	5,033
Imports, c.i.f.	62,952	72,332	70,716	77,196
Trade balance	(58,371)	(68,062)	(64,705)	(70,457)
Current account balance	7,107	3,073	5,584	8,888

c.i.f. = cost, insurance, freight; f.o.b. = free on board; p = provisional.

Source: Cook Islands Statistics Office. 2000 *Cook Islands Annual Statistical Bulletin*, June.

## II. SHORT- AND MEDIUM-TERM ECONOMIC PROSPECTS AND POLICY ISSUES

### A. Economic Prospects

17. The economic outlook for the Cook Islands is the brightest it has been for five years. Growth resumed in 1999, and there is reason to expect that it will continue, perhaps at an accelerated rate. Tourism growth has been strong and will benefit from tourists diverted from the Fiji Islands. In addition, there are prospects for developing the Rapae hotel site and of reaching an agreement with foreign investors to complete the 180-room Vaimaanga hotel. This would have major direct and indirect economic impacts through the construction and provision of four-star accommodation for higher-income tourists—impacts that were not factored into official GDP forecasts. Commercial agriculture, already recovering from the effects of drought, would benefit from an associated demand stimulus. Black pearl production is forecast to increase by at least 50 percent in 2000.

18. The official medium-term forecasts of real GDP are shown in Table 10. If hotel construction proceeds, and/or if commercial long-line fishing ventures come to fruition, actual growth rates could be higher. Equally, if the international economic environment deteriorates, or tourism is adversely affected (by disruption of air services, for example), or natural disaster strikes, the forecasts could prove overoptimistic. The Cook Islands became a party of the Partnership Agreement between the African, Caribbean, and Pacific states and the European Union (EU) in June 2000. The country will receive more assistance from the EU and expand its access to the EU's trade and tourism market.

**Table 10: Gross Domestic Product**  
(NZ\$'000, constant 1990 market prices)

Item	1997/98	1998/99	99/2000	2000/01	2001/02
	Actual	Actual	Estimates	Projection	Projection
Nominal GDP (NZ\$'000)	141,986	142,907	149,158	155,912	164,180
Percentage Change ( percent)	(3.2)	0.6	4.4	4.5	5.3
Real GDP (NZ\$'000)	119,532	118,839	122,331	126,350	131,207
Percentage Change ( percent)	(3.3)	(0.6)	2.9	3.3	3.8
<b>Percentage Change in CPI ( percent)</b>	<b>0.7</b>	<b>1.7</b>	<b>1.1</b>	<b>1.3</b>	<b>1.5</b>
Construction/Capital Investment (\$'000)					
Business Construction	2,819	2,850	2,439	2,101	2,330
Private Construction	5,611	5,252	4,989	4,681	4,080
Public Capital Expenditure	6,018	5,949	5,582	4,993	4,153
<b>Total Construction/Capital Expenditure</b>	<b>14,448</b>	<b>14,051</b>	<b>13,010</b>	<b>11,776</b>	<b>10,563</b>
Productive Sectors					
- Tourism (#)	47,429	51,590	58,600	61,800	65,500
- percent of GDP	36	39	42	43	44
- Pearls (NZ\$'000)	4,035	5,188	5,566	6,595	9,733
- percent of GDP	2.8	3.6	3.7	4.2	6.0
- Commercial Agriculture (NZ\$'000)	4,900	4,800	5,000	5,200	5,400
- percent of GDP	3	3	3	3	3
- Current account balance (NZ\$'000)	4,018	(9,000)	(12,000)	(11,000)	(10,000)
- percent of GDP	2.8	(6.29)	(8.0)	(7.0)	(6.1)
Trade Balance (NZ\$'000)	(69,208)	(63,980)	(68,000)	(67,000)	(66,000)

CPI = Consumer Price Index, GDP = Gross Domestic Product

Source: Ministry of Finance and Economic Management (MFEM). Budget Policy Statement 2000/2001. 2000. Rarotonga

**B. Policy Issues**

19. The principal policy issue for the Cook Islands remains that of completing the Economic Restructuring Program and consolidating its achievements. Effective efforts to realize fiscal surpluses are needed and will have to involve a planned completion of public service reform. The number of ministries (22) and public servants (1,200) is still too high for a population of around 16,000. The failure to reduce the size and cost of a parliament of 25 members, and the associated public concern over politicians' real commitment to improved governance, also need to be addressed. The recommendations of the 1998 Political Reform Commission, which include one for downsizing Parliament, need to be acted upon. In respect of improving the private sector enabling environment, progress has been made in the area of tax reform and effective promotion of the Cook Islands as foreign-investor friendly. Areas still requiring Government attention include tariff reform, privatization (with appropriate attention to the regulatory framework), and review of laws and regulations affecting the operation of markets for labor and transport services. Improved environmental management is also needed if growth is to prove sustainable. To empower people of the outer islands with a greater say in their affairs, the Government launched a devolution process. The Government plans to (i) establish the appropriate legal framework to effect the empowerment of the outer islands, (ii) increase the management capacity of the islands councils, and (iii) develop management mechanisms to ensure the efficient delivery of good and services. This important national policy needs to be carried out in line with the commitment to public sector reform and fiscal discipline.



## STATISTICAL APPENDIX

**Table A.1: Visitor Arrivals by Country of Usual Residence**

<b>Period</b>	<b>Total</b>	<b>New Zealand</b>	<b>Australia</b>	<b>United States</b>	<b>Canada</b>	<b>Europe</b>	<b>Asia</b>	<b>Cook Islands</b>	<b>French Polynesia</b>	<b>Other Country</b>
<b>Year</b>										
1993	59,384	15,412	5,864	7,898	4,141	17,500	766	5,549	1,366	888
1994	63,923	15,312	5,186	8,839	3,962	20,380	627	6,630	3,282	705
1995	54,239	14,161	4,361	5,270	2,667	18,600	646	6,340	1,620	574
1996	54,286	14,538	4,075	6,088	2,757	18,024	447	5,932	1,845	580
1997	56,669	14,067	3,907	6,417	3,074	19,896	548	6,803	1,055	902
1998	55,552	14,150	4,021	5,365	3,622	19,290	450	6,923	1,072	659
1999	62,970	17,137	6,939	5,853	5,230	18,382	443	7,371	742	873

Source: Cook Islands Statistics Office. 2000. *Cook Islands Annual Statistical Bulletin, June*.

**Table A.2: Government Total Expenditure By Type**

Fiscal Year <sup>a</sup>	Total Expenditure	Wages and Salaries	Employer Contributions	Purchases of Goods and Services	Subsidies	Transfers to Households	Transfers Abroad	Capital Expenditure & Transfers
1990/91 <sup>b</sup>	62,096	33,421	2,006	14,486	3,613	4,905	485	3,181
1991/92	62,648	31,022	1,715	16,355	3,083	4,285	411	5,777
1992/93	60,806	32,060	2,422	16,317	2,835	3,909	618	2,645
1993/94	63,989	36,119	1,908	14,025	2,856	4,762	1,627	2,693
1994/95	68,715	38,612	1,289	12,906	3,830	6,413	830	4,835
1995/96	66,834	35,787	1,632	15,751	2,078	8,432	725	2,429
1996/97	44,893	22,628	1,204	10,482		7,056	725	2,799
1997/98	55,348	22,650	1,304	21,562		5,815	725	3,292
1998/99(p)	46,528	22,650	1,304	13,147		5,982	725	2,720
1999/2000(p)	49,500	22,855	1,304	14,888		6,066	725	3,663
<b>Percentage Composition</b>								
1990/91	100	53.8	3.2	23.3	5.8	7.9	0.8	5.1
1991/92	100	49.5	2.7	26.1	4.9	6.8	0.7	9.2
1992/93	100	52.7	4.0	26.8	4.7	6.4	1.0	4.3
1993/94	100	56.4	3.0	21.9	4.5	7.4	2.5	4.2
1994/95	100	56.2	1.9	18.8	5.6	9.3	1.2	7.0
1995/96	100	53.5	2.4	23.6	3.1	12.6	1.1	3.6
1996/97	100	50.4	2.7	23.3	0.0	15.7	1.6	6.2
1997/98	100	40.9	2.4	39.0	0.0	10.5	1.3	5.9
1998/99(p)	100	48.7	2.8	28.3	0.0	12.9	1.6	5.8
1999/2000(p)	100	46.2	2.6	30.1	0.0	12.3	1.5	7.4

p = provisional

Note: <sup>a</sup> Up to 1990 year-end is 31 March, after 1990 30 June

<sup>b</sup> Fifteen-month period

Source: Cook Islands Statistic Office. *2000 Cook Islands Annual Statistical Bulletin, June.*

**Table A.3: Government Total Expenditure by Function**

<b>Fiscal Year<sup>a</sup></b>	<b>Total</b>	<b>Admin.</b>	<b>Public Order &amp; Safety</b>	<b>Education</b>	<b>Health</b>	<b>Housing &amp; Community Services</b>	<b>Recreation and Culture</b>	<b>Agriculture Forestry &amp; Fishing</b>	<b>Other Economic Services</b>
1990/91 <sup>b</sup>	62,096	22,131	4,052	7,732	6,633	7,238	1,733	3,822	8,755
1991/92	62,648	17,393	3,806	7,419	6,000	6,491	3,911	3,496	14,131
1992/93	60,806	19,580	4,300	8,372	6,800	7,729	9,361	4,300	363
1993/94	63,989	25,501	4,412	10,666	6,460	9,093	2,442	5,853	-436
1994/95	68,715	19,305	3,985	8,249	6,819	9,207	3,442	4,988	12,721
1995/96	66,834	18,604	3,317	6,331	5,932	9,972	1,698	3,941	17,040
1996/97	44,893	12,013	2,767	4,909	4,678	8,055	464	2,318	9,689
1997/98	55,348	23,900	2,986	5,875	5,146	6,546	409	1,739	8,746
1998/99(p)	46,528	12,005	3,378	6,057	4,692	6,707	374	1,500	11,815
1999/00(p)	49,500	11,406	3,819	6,196	5,061	6,654	453	1,605	14,306
<b>Percentage Composition</b>									
1990/91	100	35.6	6.5	12.5	10.7	11.7	2.8	6.2	14.1
1991/92	100	27.8	6.1	11.8	9.6	10.4	6.2	5.6	22.6
1992/93	100	32.2	7.1	13.8	11.2	12.7	15.4	7.1	0.6
1993/94	100	39.9	6.9	16.7	10.1	14.2	3.8	9.1	(0.7)
1994/95	100	28.1	5.8	12.0	9.9	13.4	5.0	7.3	18.5
1995/96	100	27.8	5.0	9.5	8.9	14.9	2.5	5.9	25.5
1996/97	100	26.8	6.2	10.9	10.4	17.9	1.0	5.2	21.6
1997/98	100	43.2	5.4	10.6	9.3	11.8	0.7	3.1	15.8
1998/99(p)	100	25.8	7.3	13.0	10.1	14.4	0.8	3.2	25.4
1999/2000(p)	100	23.0	7.7	12.5	10.2	13.4	0.9	3.2	28.9

p = provisional

Source: Cook Islands Statistic Office, *Cook Islands Annual Statistical Bulletin, June 2000*.

Notes: <sup>a</sup> Up to 1990, year-end is 31 March and after 2000, 30 June.

<sup>b</sup> Fifteen-month period